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# NATIONAL BANKING

## A DISCUSSION OF THE MERITS OF THE PRESENT SYSTEM

BY

M. L. SCUDDER, JR.

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NEW YORK
PUBLISHED FOR THE
HONEST MONEY LEAGUE OF THE NORTHWEST
BY G. P. PUTNAM'S SONS
182 FIFTH AVENUE
1879

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# NATIONAL BANKING.

## THE HISTORY OF THE NATIONAL BANKING ACT.

Abraham Lincoln and Salmon P. Chase were the first to propose the present system of national banks. Wm. P. Fessenden, Chas. Sumner, Henry Wilson, Benj. F. Wade, Owen Lovejoy, and Thaddeus Stevens advocated it or approved it and voted for it.

Secretary Chase, in his report accompanying the President's message at the opening of the regular session of Congress in December, 1861, after describing the proposed banking system, thus briefly indicated the reasons for its adoption:

"In this plan, the people in their ordinary course "of business will find the advantages of uniformity "in currency; of uniformity in security; of effectual "safeguard, if effectual safeguard is possible, against "depreciation; and of protection from losses in dis- "counts and exchanges."

Here are indicated the principal evils which at that time attended the operations of banking—depre-

ciation and varying value of bills, and risks and high rates of discount and exchange. How completely the national banking system has accomplished its object! These dangers and annoyances in banking transactions are now held petty and insignificant, and are almost forgotten.

Secretary Chase further indicated the advantages of the proposed system:

"The people would find the further advantages of "a large demand for government securities, of in- "creased facilities for obtaining the loans required "by the war, and of some alleviation of the burdens "on industry through a discrimination of the rate of "interest, or a participation in the profits of circu- "lation, without risking the perils of a great money "monopoly.

"A further and important advantage to the peo- "ple may be expected in the increased security of "the Union, springing from the common interest "in its preservation created in the distribution of its "stocks throughout the country, as the basis of "their circulation."

Here we have set forth the true intent and character of the national banking act. It was ingenious, wise and patriotic. It was meant to benefit the people in their business interests and to cement the Union. It was not a scheme of brokers and bankers to increase commissions and rates of interest, but

a device of statesmen to cause diverse interests to center in the preservation of the government. Its results have been even more than were expected. Without in any sense creating a monopoly or a money power, it has introduced great economy into ordinary business transactions, has greatly lessened the charges of conducting trade, and has greatly facilitated the transfer of large sums of capital to those parts of the country where they have been most needed, and it has extended so many cords of mutual interest, between men and communities in widely-separated parts of the country, that it has made the destruction of the national banks a necessary preliminary to any new move for the destruction of the Union.

The first draft of the national bank act was made in December, 1861, by Hon. E. G. Spaulding, at the request of Secretary Chase. But the project found at first very little support. The representatives of the large State banks did not favor it. And the members of Congress from New York and New England regarded it with much jealousy. The bill remained unacted upon for more than a year.

But President Lincoln firmly believed in the beneficial effects of the proposed national banking scheme. He was alarmed at the increase of government legal tender paper money, and the rise of prices, and with strong practical common sense he

saw the remedy in well-regulated national bank currency.

He repeatedly expressed these views in his messages, and January 17, 1863, he sent a special message to Congress, expressing his regret at signing a bill for an additional issue of $100,000,000 United States legal tender notes, because this form of currency, together with that of the suspended banks, "had become so redundant as to increase prices beyond real values, thereby augmenting the cost of living to the injury of labor, and the cost of supplies to the injury of the whole country."

To correct this evil he again recommended the adoption of a national banking act. He said:

"To that end a uniform currency, in which taxes, "subscriptions to loans, and all other ordinary pub- "lic dues, as well as all private dues may be paid, is "almost if not quite indispensable. Such a currency "can be furnished by banking associations, organ- "ized under a general act of Congress, as suggested "in my message at the beginning of the present ses- "sion. The securing of this circulation by the "pledge of United States bonds as therein suggested, "would still further facilitate loans by increasing "the present, and causing a future demand for such "bonds."

It is easy to see from these quotations what interests Abraham Lincoln had most at heart—protection

of the laboring classes against the injury of a false standard of value upon the cost of living, and securing a good market for government bonds, that he might have the means to push to triumph the war for the Union. The national banks were born of these good intentions.

Congress, thus urged by the President, took up the national currency bank bill on the 2nd of February, 1863; and after long debate it passed both houses by small majorities—two in the Senate and fourteen in the House.

The bill was signed by the President March 25, 1863, but no national bank currency was issued until about the first of January, 1864.

The First National Bank of Philadelphia was organized by Jay Cooke, then the agent of the Treasury, and his associates, June 20, 1863; but no currency was issued until December 21, 1863. The First National Bank of New Haven was second on the list. The third was the First National Bank of Youngstown, Ohio. Indeed, the smaller cities of the country were generally first in adopting the new system. The great monetary centers did not favor it, and the great banks came to it with much hesitation and after long deliberation.

It is worthy of remark in this connection, that the national bank act was intended by its originators to inaugurate *a permanent system* of national currency.

This sufficiently appears from the quotation already given from Lincoln's message of January 17, 1863. It was also frequently announced by the advocates of the measure in the debate upon the bill. But the bank men of the country did not at first so regard it. Erastus Corning wrote to Mr. Spaulding, that the bill must be carefully drawn, for his State (New York) would not favor it. Leading bankers from the principal cities expressed their disapprobation in interviews with the Secretary of the Treasury. Mr. Hugh McCullough, at that time a banker in Indiana, was opposed to the bill. It was believed that the banks of the country would not submit to the frequent official examinations and publications of statements, and novel restrictions which it provided. But the sentiment of the people was found to be in its favor, and the patriotism of the bankers proved to be above self-interest. They submitted to the exactions of the new law, and one by one the principal banks of the country organized under it. They accepted it as a permanent system, not for their own profit, but for the good of the country.

The greatest number of national banks was reached about June 30, 1876, when there were two thousand and ninety-one doing business. Since that time the number has somewhat declined.

The total number of national banks organized since the establishment of the national banking system on

February 25, 1863, is two thousand four hundred. Of these, two hundred and seventy-three have gone into voluntary liquidation by vote of shareholders owning two-thirds of their respective capitals, and seventy-four have been placed in the hands of receivers for the purpose of closing up their affairs, leaving two thousand and fifty-three in existence on November 1, 1878.

During the past year twenty-eight banks have been organized, with an authorized capital of $2,775,000, to which $1,598,800, in circulating notes, have been issued. Fifteen banks have failed within this period, having an aggregate capital of $2,712,500, and forty-one banks, with a total capital of $5,200,000, have voluntarily discontinued business.

There is hardly space here even to indicate the various amendments which have been made from time to time to the national bank act.

It was originally provided that $300,000,000 of currency should be issued, $150,000,000 apportioned according to population, and $150,000,000 apportioned according to banking capital. But this distribution was thought to be unjust to poorer and less settled parts of the country, and after several successive modifications, the limits upon the amount and distribution of the currency were entirely removed. On the 26th October, 1878, there were $321,008,820 of national bank currency outstanding.

Banking is now free. Any five men of good character, having the requisite capital, can organize a national bank in any part of the country, by conforming to the provisions of the act. They can deposit their bonds with the comptroller and receive ninety per cent. of the value thereof in notes; but they must make statements of their business in regular form, whenever called upon, and must submit their affairs to examination, at the most unexpected moments. They must keep a reserve fund for the redemption of their outstanding notes. They must also maintain a fund in lawful money for the payment of their deposits. If they fail to conform to the requirements of the law, or otherwise show to the satisfaction of the comptroller that they are not conducting a safe and legitimate banking business, their bank will be put into the hands of a receiver and its affairs concluded. Banking is perfectly free in this country to men who have the requisite skill and capital.

It has been suggested by certain visionary opponents of the national bank system, that the method of depositing bonds and drawing ninety per cent. of the value in currency may be utilized by shrewd persons, and made the means of a profitable speculation. It is imagined that any person having obtained $100,000 in bonds may deposit them and draw $90,000 in circulating notes, buy more bonds with

these notes, and upon those bonds obtain more notes, and so on indefinitely, obtaining some $800,000 upon an original investment of $100,000. The absurdity of this supposition is apparent to any one who chooses to consult the law. The law provides that the amount of circulating notes to be furnished to each association shall not be, in any case, in excess of ninety per cent. of its paid-up capital. And it is also provided that no "association shall use its circulating notes or any part thereof, in any manner or form, to create or increase its capital stock." It is, therefore, absolutely impossible to carry on such a speculation. And the recklessness and ignorance of those, who have spent their time in devising this injurious supposition, are manifest.

## THE HISTORY OF PREVIOUS BANKING IN THIS COUNTRY.

The national bank act, although originating in the minds of Lincoln or Chase, or both, was a natural growth from the previous financial experience of this country.

It is obvious that banks of some kind are necessary to the business transactions of a civilized community. If banks of all sorts were abolished, we would be obliged to multiply our exertions, and to divide our comforts. Banks are labor-saving ma-

chines. They enable one dollar of actual money to do the work of ten, or of a hundred.

Very early in the history of this country, banking in a crude form was begun. There is evidence of a bank of issue in Massachusetts, as early as 1686. Following the John Law and South Sea schemes in Europe, many experiments of a like character were inaugurated in this country. At the time of the revolution, the colonies had tried many experiments in banking projects, and had learned many valuable lessons by sad experience. But none of the many banks survived the war.

Robert Morris devised the first organized general bank, after the independence of the United States, when superintendent of the Federal finances in 1781. It was styled the Bank of North America, and began business in Philadelphia in 1782, with a capital of 400,000 Spanish milled dollars. It was in this year granted an act of incorporation by the legislature of Pennsylvania. It continued in existence as a State bank until 1864, when it became a national bank, and still exists, having now a capital of $1,000,000, as the National Bank of North America.

The Bank of Massachusetts was chartered by the legislature of that State, February 7, 1784. It began business with a capital of $300,000, and is now doing business as a national bank with a capital of $800,000.

The Bank of New York began business in 1784, but was not granted a charter by that State until 1791. It still exists as a national bank with a capital of $3,000,000.

From these beginnings the number of banks increased rapidly. Nearly all the States granted many special charters, and at times the country was troubled with multitudes of bank notes which greatly fluctuated in value.

The first bank of the United States was chartered February 25, 1791, by Congress, on a plan proposed by Alexander Hamilton. The capital stock was $10,000,000. $2,000,000 was subscribed by the United States government. This stock was afterwards sold, and the government made a profit of 57 per cent. upon its investment. The bank issued bills, but none under $10.

The management of this bank is represented to have been very judicious, and the business of the country prospered under its influence. Its charter expired in 1811, and Congress, by a very close vote, refused to renew it. The bank settled its affairs without loss to any one, paying all its depositors and bill-holders in full, and even returning to its shareholders more than the full par value of their shares.

The opponents of this bank were doubtless influenced by many unworthy personal motives. It was charged with being a monopoly, oligarchical in its

nature and wielding more power than should be entrusted to any board of directors under a republican form of government. There was force in this argument, and, aided as it was by much local jealousy from other parts of the country against Philadelphia, it served to overthrow this very useful institution.

The nation suffered greatly for the lack of the financial assistance, which this bank would have undoubtedly rendered, in the war of 1812.

Following the closing of the United States Bank, a multitude of banks were chartered in the several States, and paper circulation increased enormously, so that a general suspension of specie payments was forced in 1814.

The utility of the United States Bank was then made apparent, and the people demanded that it be rechartered. A new charter was granted in 1816, running twenty years, and the capital was fixed at $35,000,000.

The second United States Bank opened its doors at a most unfavorable time. Business was in a most depressed condition, suffering the reaction from the State bank note inflation of 1812–15. The management of this bank does not seem to have entitled it to the confidence of the people. It appears to have been headstrong and impressed with a sense of its own power and importance. It enlarged its dis-

counts unwisely and made large advances upon its own stock, and it is said that within one year of its beginning business it was insolvent. However, it managed to continue payment and to better its condition, and might have prospered. But it encountered the famous opposition of Andrew Jackson, and proved no match for that vigorous fighter. It is charged that the bank to gain popularity almost doubled its discounts, and then, to terrify its enemies, violently contracted its advances. Its controlling minds appeared unequal to the emergency. It failed to secure a new charter from Congress in 1836, but continued business under a charter from the State of Pennsylvania until 1841, when it was forced to make an assignment. Its note-holders and depositors were paid in full, but its shareholders, with the exception of the United States government, whose $7,000,000 of stock was paid in full, lost the whole amount subscribed by them.

Another attempt was made in 1841 to obtain a charter from Congress for a United States Bank, but the bill was vetoed by President Tyler and failed.

The people of the United States had learned from these experiences two lessons :

1st. That a national bank properly conducted was a great advantage to the business of the country.

2nd. That the power inseparable from a great national bank, when placed in th hands of a few self-

ish, unwise or unpatriotic men, might be dangerous to the welfare of the nation.

No device was proposed for reconciling these opposing lessons, and the people, preferring to suffer inconvenience and retarding of prosperity rather than run the risk of endangering their liberties, approved the course of Jackson, and made an effort to satisfy the demands of trade with the imperfect facilities afforded by State banks. This state of affairs continued for twenty years, and during that period there were nearly as many distinct systems of bank-paper currency as there were States in the Union, hampering trade between distant points, by making the means of payment vexatious and uncertain.

The best known and most satisfactory of these systems were the Suffolk Bank system, which applied to all New England, and the Free Banking system of New York.

The first compelled all the banks in New England to redeem their notes at par at the counter of the Suffolk Bank of Boston. This was in no sense a free banking system, but a monopoly, as banks could only be organized under special charters obtained from the legislature of some one of the New England States. The circulation, which was not required to be secured by any deposit, frequently occasioned loss to the holders upon the failure of the banks issuing it.

In April, 1818, the legislature of New York passed

what became known as "the restraining law," which prohibited the business of discount and deposit banking to all except the few favored institutions, which had special charters from the State. This established an oppressive monopoly, but in the course of twenty years produced a reaction, and the well known free banking law of 1838 was passed. This law is the first embodiment of the plan for securing paper circulation by a public deposit of securities. Under this law the banking associations could be readily organized, they received their circulation from the comptroller of the State, and left on deposit with him an equal amount of the stocks of the United States or of the State of New York. This plan has been criticised; but it worked successfully, creating confidence and unfailing security. It is this plan which has been adopted in the present national banking system, solving the problem which perplexed the people of the United States during the first half of this century, and proving that national banking can be conducted on a safe basis, and free from all the characteristics of monopoly.

The banks of other States during this period were, for the most part, not regarded with favor outside of the neighborhoods in which they were located. Their bills circulated at a considerable and fluctuating discount, and frequently proved a total loss to the holders.

We quote some cotemporary evidence in regard to the character of the banking institutions of those days:

The governor of Indiana, referring to such banks, said in his message for 1853: "The speculator comes "to Indianapolis with a bundle of bank notes in one "hand and the stock in the other; in twenty-four "hours he is on the way to some distant point of the "Union to circulate what he denominates a legal cur- "rency authorized by the legislature of Indiana. He "has nominally located his bank in some remote part "of the State, difficult of access, where he knows no "banking facilities are required, and intends that his "notes shall go into the hands of persons who will "have no means of demanding their redemption."

The governor of Michigan, in his message for the same year, said: "At present we are giving charters "to the issues of banks about which we actually "know nothing, in whose management we have no "participation, and are thus literally paying a large "tribute for what generally in the end proves to be a "great curse."

Governor Ford, in a message to the legislature of New Jersey, said: "In many cases our banks, "although ostensibly located in New Jersey, have "their whole business operations conducted by brok- "ers in other States. The facility with which they "may be organized and located, without reference to

"the wants of the community or the business of the "place, is destructive to all the legitimate ends of "banking."

Upon this subject Hon. Hugh McCulloch, Secretary of the Treasury, wrote as follows in his report for 1868:

"In May, 1863, when the National Currency Bu- "reau was established in Washington, some 1,500 "banks organized under State laws, furnished the "people of the United States with a bank note cur- "rency. In some of the States, banks were compelled "to protect—partially at least—the holders of their "notes against loss, by deposits of securities with the "proper authorities. In other States, the capital of "the banks (that capital being wholly under the con- "trol of their managers) was the only security for the "redemption of their notes. In some States there "was no limit to the amount of notes that might be "issued, if secured according to the requirements of "their statutes, nor any necessary relation of circula- "tion to capital. In others, while notes could be "issued only in certain proportions to capital, there "was no restriction upon the number of banks that "might be organized. The notes of a few banks, "being payable or redeemable at commercial centers, "were current in most of the States, while the notes "of other banks (perhaps just as solvent) were un- "current beyond the limits of the States by whose

"authority they were issued. How valueless were "the notes of many of the State banks is still keenly "remembered by the thousands who suffered by "their insolvency. The direct losses sustained by "the people by an unsecured bank note circulation, "and the indirect losses to the country, resulting "from the deranged exchanges, caused by a local "currency constantly subject to the manipulations of "money-changers, and from the utter unsuitableness "of such a currency to the circumstances of the "country, can be counted by millions. It is only "necessary to compare the circulation of the State "banks with that furnished by the national banks, "to vindicate the superiority of the present system. "Under the national banking system, the govern- "ment, which authorizes the issue of bank notes, "and compels the people to receive them as money, "assumes its just responsibility and guarantees their "payment. This is the feature which especially dis- "tinguishes it from others and gives to it its greatest "value."

## WHY THE PRESENT SYSTEM IS NOT OPEN TO THE OBJECTIONS URGED AGAINST THE OLD NATIONAL BANKS.

The opposition to the old national banks was composed of divers elements.

There were first, the theorists, followers of Thomas

Paine and Thomas Jefferson, who opposed all incorporated banks of every description. Disciples of Rosseau, and sympathizers with the revolutionists of France, they looked upon society as a commune, and the operation of aggregated capitals as violations of the natural rights of man. Their views were obsolete and vague, and often destructive, but their expressions were strenuous and untiring. Their successors to-day are the communists and internationals, and a few college professors and men of brilliant but erratic minds. It is almost time wasted to reason with them, for their test of prosperity is not the test adopted by the majority of mankind. According to their reasoning, a savage community, in which all goods are held in common, and all members thereof starve and freeze equally, is more truly happy and enviable than that state, in which the provident and industrious man may enjoy the comforts of civilization, while his idle and dissolute neighbor goes cold and hungry. Any law by which ingenuity is encouraged to augment the rewards of labor, any scheme by which men combine their resources and economize their time, is a violation of natural right, and for the same reason that they oppose national banks, they burn the reaping-machines of the prosperous farmer, and would, if they could, force him to divide his savings with them.

This element, however, though formidable enough,

has never been by itself successful in this country.

The second element was made up of those jealous guardians of freedom, who saw danger in the concentration of power, and preferred to protect the State from a threatened oligarchy, even though they deprived themselves and their neighbors of a useful institution. There were doubtless many honest, practical men who so regarded the first and second banks of the United States. They were unquestionably monopolies, operated by a few men for the especial profit of a very limited number of citizens. It might have been unsafe to trust so much to the wisdom and patriotism of a board of directors. This became the prevailing sentiment of the people. The Democratic party adopted it, and carried the elections by large majorities.

But the present national banking system is so essentially different from the old in its organization and operations that the same reasoning will not apply to it.

The present system is free to all. Any five citizens having the necessary capital and character can organize a national bank. If the possession of capital, which any man can acquire by labor, or the possession of character, which any one can acquire by living an honest and sober life, constitutes a monopoly, a

national bank thus organized is a monopoly, otherwise not.

The following is from the Democratic platform of 1852:

"That Congress has no power to charter a national "bank; that we believe such an institution one of "deadly hostility to the best interests of the coun- "try, dangerous to our republican institutions and "the liberties of the people, and calculated to place "the business of the country within the control of a "concentrated money power, and above the laws and "will of the people."

Here is expressed the full ground of Democratic opposition to a national bank. There was much reason in this opposition. The only national bank which had been thought of at that time was capable of fostering an oligarchical money power, if its managers were so disposed. The second United States bank did cause financial disaster by contracting discounts, as it is charged, for the purpose of teaching President Jackson its power. But the present national banking law effectually disarms this opposition. What might be accomplished by a dozen directors, meeting in a bank in Philadelphia, could never be undertaken by fifteen thousand directors, scattered through the whole country. Combination for the accomplishment of an unlawful or unpatriotic object is impossible. Anything dangerous to repub-

lican institutions or to the liberties of the people, will not emanate from the directors of national banks who are too numerous to form a conspiracy, and who are completely identified with every class and variety of business interests. Let any one in any community inquire who are the directors of the national banks there established. It will be found that they are the merchants, the manufacturers, the farmers, on whose integrity, energy and skill, rests the business prosperity of their neighborhoods. They are chosen as directors, not generally on account of the large number of bank shares which they own, but on account of their business ability. They are appointed to a considerable extent as the trustees of the property of others, not as managers of their own. It is safe to say that the large majority of the directors of national banks have much greater personal interests outside of the banks than in them, and that they would be the last persons to engage in a conspiracy to ruin the business of the country, even if they could see that thereby the banks would secure large profits. It therefore may be clearly seen that the old Democratic argument against a national bank is totally inapplicable to the present system.

The national bank law especially guards against the concentration of the direction of the banks in the hands of a few men. It provides that three-fourths of the directors of each bank must have

resided in the State, Territory or District, where the bank is located at least one year previous to their election to such office, and must remain residents while they remain directors.

The power of Congress to charter a national bank has been emphatically asserted by the Supreme Court of the United States, whenever that question has been brought before that tribunal.

Chief Justice Marshall concluded an elaborate opinion in the case of McCulloch *v.* The State of Maryland in 1819, in the following language :

"After the most deliberate consideration it is the "unanimous and decided opinion of this court, that "the act to incorporate the Bank of the United "States is a law made in pursuance of the Constitu- "tion, and is a part of the supreme law of the "land."

This decision was repeated in 1824, in the case of Osborn *v.* The Bank of the United States, and no conflicting opinion has ever been given.

In Farmers & Mechanics' National Bank *v.* Dearing, Justice Swayne, in giving the opinion of the court, says :

"The constitutionality of the act of 1864 (the "present national bank act) is not questioned. It "rests on the same principle as the act creating the "second Bank of the United States. The national "banks organized under this act are instruments de-

"signed to aid the government in the administration "of an important branch of the public service. They "are means appropriate to that end. Of the degree "of the necessity which existed for creating them, "Congress is the sole judge."

It therefore appears that the Democratic opposition to a national bank was not founded in law, but in expediency; therefore, having shown that it is not, and cannot be made to protect a monopoly, we have but to show that it is useful and economical to the nation, to secure for it the support of all right-minded citizens.

The third element of opposition to the old national banks was composed of the stockholders of the State banks. As these were clearly actuated by motives of self-interest, it is useless to reason with them. Like the communists, they must be met and vanquished by the earnest, patriotic people of the country, at the polls, whenever they make their self-interest a political issue.

It will be shown, further on, how immensely the country has gained by substituting the national banks for the old State banks, and what a great tax the business men of the United States would impose upon themselves by returning once more to the currencies and exchanges in use before the war.

## THE STATE BANKS AND THE NATIONAL BANKS COMPARED.

The national bank act imposed a tax of ten per cent. upon the notes of State banks, and thus drove them out of circulation. It is now proposed to repeal this provision, and to allow the notes of State banks once more to come into circulation.

Hon. Robert B. Vance, of North Carolina, introduced a bill into the House of Representatives last year, for this purpose, and advocated it in a long speech, delivered May 1, 1878. Mr. Vance's attack upon the national banks is mainly a falsification of figures, and a misstatement of facts, which the slightest examination will serve to correct. It is not worthy attention in this regard. But it is interesting to note the reasons which he gives, why the State bank circulation should be revived, and the reasons why national banks are not suited to the business needs of North Carolina. He quotes from the *Raleigh Observer* of September 9, 1877, in reference to this State.

"We now call the attention of our readers to the "loss of currency our State, as a whole, sustains by "having this system instead of that in which the "basis of the banks shall be gold and silver instead "of paper.

"There are fifteen national banks in the State, "with an aggregate capital of $2,556,000.

"The aggregate bonds deposited in Washington to "secure circulation are $1,606,100, which cost prob- "ably at least $1,750,000.

"The total currency received in exchange for all "this money is only, say, $1,450,000; so that the "State has lost, say, $300,000 in currency by the "establishment of these banks.

"Now, supposing these bonds were exchanged for "gold, as they could be easily, and supposing that "the banks could issue $3 in notes for $1 in specie in "the vaults, as was considered safe under the old "system, then they could lend to our people, if "good security should be offered, as much as, say, "$4,500,000.

"We have heretofore shown with regard to the "national banking system, that it is liable to several "insuperable objections, as applicable to communi- "ties like our own, which have little accumulated "capital. These objections in substance are:

"First. That as the basis of the banks is United "States bonds, and as those bonds must be bought "in a distant market, the money sent away to buy "the bonds is more than the currency brought back. "We showed, for example, that Raleigh, with "$600,000 banking capital, had sent out of the State "$120,000 more currency than the banks were able to

"issue, and that Raleigh had lost, by such establish-
"ment of banks, that amount of money.

"Second. That, this being the case, the banks, in
"order to pay necessary expenses of offices, rents,
"taxes, &c., must charge high rate of interest.

"We showed that if the banks were founded on
"gold and silver, instead of United States bonds, they
"could issue two or three times as much as they do
"now, and could therefore charge one-half or one-
"third the rate of interest.

"Third. It follows that the much-talked of 'new
"distribution of currency,' 'withdrawing currency'
"from New England, New York, &c., so as to allow
"the West and the South to establish new banks,
"modern 'free banking' as it is called, are delusive
"mockeries, because, in order to avail themselves of
"the privilege, the West and South must send to
"those places, for purchase of bonds, more currency
"than they obtain. The West and the South have
"been deluded by the smart capitalists of the North
"and Northeast, and the members of Congress,
"whom they control, into the belief that they were
"gaining something, when in reality they were los-
"ing enormously.

"The result of this oppressive system is that cur-
"rency is taken from the poor communities, and
"piled up on the rich; that money cannot be had
"where it is needed; that all industry and enterprise

"are stifled; that debtors are at the mercy of credi-
"tors; that often money cannot be borrowed in sec-
"tions of the country where it is wanted, at even the
"most enormous rates of interest, and that prudent
"men are deterred from business enterprises, because
"at certain seasons, even when no panic is existing,
"they cannot be sure of obtaining bank accommoda-
"tions at any price."

Mr. Vance then adds:

"These national banks are not adapted to an agri-
"cultural locality, and do not afford the monetary
"conveniences which the people in these localities
"demand."

This is a fair statement of the case from the State bank stand-point, and the essence of the whole argument is, that the national banks are not allowed to issue a sufficient amount of circulation in proportion to their capital. The State banks would issue two or three times as much. An agricultural community do not care about the security of the bills which they receive, so long as there are plenty of them.

This state of mind may prevail in any locality, provided that the nature of banking is but little understood there, and a superstitious reverence exists for anything bearing the form and superscription of a bank bill. But every intelligent community knows that the amount of money required by them is in

proportion to the corn, or cotton, or merchandise which they have to exchange, and that in a free country, where money is abundant and of uniform value, it will naturally flow to communities in proportion to their needs. Every intelligent community also knows that a banker who issues circulation greatly in excess of his capital is untrustworthy, and will sooner or later fail to pay his notes. Such community will prefer to go without money rather than suffer the certain loss which will ensue from accepting such notes. In fact, Mr. Vance and the *Raleigh Observer* do the people of North Carolina injustice in representing that they are willing to receive, as money, bank notes issued greatly in excess of the capital of the banks. Tables contained in the Comptroller's Report for 1876, show the capital and circulation of the banks of all the States in each year from 1834 to 1861, and this table shows that in North Carolina the circulation rarely exceeded the capital, and was for the most part not greater than ninety per cent. of the same. The statistics of all the banks of the country show that the circulation never equalled the capital stock, and those years in which these two amounts came nearest together were marked by panic and financial ruin.

It may well be supposed that some parts of the United States desire a larger banking capital and a lower rate of interest. North Carolina has less than

one-half the banking capital which she had in 1861. But lack of banking capital is not the same thing as lack of note circulation. Bank notes can only safely follow banking capital, and until North Carolina accumulates or attracts capital, her rate of interest will not be lower or her note circulation greater.

This case of North Carolina is an extreme case, but it is not best to desert sound principles and despise the lessons of experience in the attempt to relieve present distress. The national banking system will yet do for North Carolina and the other Southern States, what it has already done for those in the West and Northwest. It has furnished a safe and economical means for the transfer of capital thither. By its agency the profits of agriculture have been more speedily and largely realized, and mining and manufacturing have been effectually encouraged.

The figures sufficiently prove this. Comparing the operations of national banks with the operations of State banks, prior to 1861, we find the cost of exchange greatly reduced, and the discount upon circulation annihilated. Prior to 1861, the cost of bank drafts upon New York in Chicago, varied from one-half of one per cent. to two and one-half per cent. in ordinary times, and in other western cities it was often still higher. In periods

of financial uneasiness, New York exchange sometimes sold in Chicago at twenty-five per cent. premium. Western bills in New York commonly sold at a great discount. This was an immense tax upon production, and the banks made enormous profits. But under the national banking system these charges have nearly disappeared. Remittances can be made from any part of this country to any other, at the mere cost of expressage upon the currency, and bank exchange never rises above this charge. Since national bank notes are at par all over the Union, the drawer of exchange has but to ship his currency to the point on which he draws, and the cost of transportation is all the expense attending the transaction.

There never was a time in the history of the country when the notes of State banks were at par in general trade. Even the notes of the best banks were at a discount, away from home. The notes of the New England banks, redeemable at the Suffolk Bank, were never at a less discount than one-eighth of one per cent. in New York city. The discount at the same place on notes of the best banks in the Southern and Western States, was commonly from one-half of one per cent. to two and one-half per cent., while the notes of smaller banks, esteemed unquestioned in their own locations, were quoted at from five to ten per cent. below par. Even the notes of the New

York State banks, secured by deposit of bonds at Albany under the well known free banking law, were regularly at one-quarter of one per cent. discount at their banks of redemption in New York city.

Let any one attempt to estimate the saving which has annually accrued to the trade of the country from the two sources above indicated—the reduction in cost of exchange and the disappearance of the discount upon notes—since the establishment of the national banking system. It amounts to many millions of dollars, a sum vastly greater than the interest upon bonds of the banks held by government to secure their circulation, greater than the sum of the dividends paid by national banks to their stockholders. Yes, the people of the United States are each year receiving in these two items a greater profit from the national banks, than the banks pay to their shareholders.

What sections does this saving in cost of exchange and discount particularly benefit? Plainly those sections in which exchange charges were heaviest, and against whose bank notes discount was greatest —in other words, the West and South. Those sections in which banking capital is limited, and rates of interest are naturally high, receive an immense advantage from the national banks. They are afforded a cheap and safe communication with the monetary centers of the country, through which

capital may come to develop their resources. Unless it can be shown that trade is an evil thing, and that that section of our country which erects barriers against commerce is most happy and prosperous, every reasoning man must admit that in substituting the national banks for the State banks, Congress has conferred an immense benefit upon the people. Abolishing the national bank currency and returning to the old State bank notes would be like breaking the mowing-machine and taking up the scythe, like throwing away the scythe and falling back to the sickle.

Some of the other advantages of the national banks over the State banks which accrue to the people may be briefly enumerated.

The national bank notes are not easily counterfeited. Counterfeits of the national bank notes can only be prepared by the most skillful workmen. The notes of the old State banks were easily imitated. A counterfeit bank note detector was formerly necessary in every store and office, and much time was spent in examining and comparing bills. There was not a business man in the land who did not possess numerous specimens of bad bills which had been passed upon him. Now very few such bills can be put in circulation, and as an occupation the crime of counterfeiting does not pay.

The national banks are well-accredited business

agents in every part of the country. Their responsibility may be assumed, and they frequently serve individuals in doing small favors in unfamiliar localities which otherwise would cause expense and annoyance.

In comparison with the State banks, the national banks have proved their greater reliability and safety.

In the item of currency there has been absolutely no loss from national bank circulation.

The loss to the people from the worthless bills of broken banks before 1863, is estimated to have been *each year* five per cent. upon the amount of circulation outstanding.

In the item of deposits, it is estimated that the national banks have occasioned a loss of $6,415,423, during the fifteen years in which the system has been in operation. During that time sixty-nine banks have failed, having an aggregate capital of $16,015,100. Against these, claims have been proved amounting to $23,398,709, of which there has been paid, or will probably be paid, all but the $6,415,423 mentioned above. That is, less than three banks out of every hundred have failed, and these three have paid or will pay more than seventy per cent. of the claims of their creditors. Of the whole capital employed by the national banks, three per cent. only has been shown to be badly managed. Of the aver-

age amount of funds trusted by the people to the national banks during the fifteen years of their establishment, less than four per cent. has been shown to have been injudiciously invested, and of that four per cent. more than two-thirds has been or will be recovered, leaving a loss of about one per cent. of the average amount of deposits. To ascertain the actual risk which depositors in national banks run, we should have the aggregate instead of the average deposits. This sum it is impossible to arrive at. It would mount up into the thousand billions, and the real risk would be indicated by a figure carried back many places from the decimal point, and proving that a depositor in a national bank is less likely to lose his money than he is to be struck by lightning or to be dashed to pieces by a run-away horse.

There are no figures given by which an accurate estimate can be arrived at, of the losses to depositors of the old State banks. But that they were large and frequent, the memory of men of middle age now living will attest. It is said to be the exception, and not the rule, that the depositors of a broken State bank realized anything whatsoever.

The history of the last five years has shown great losses in all parts of the country from the failure of banks organized under charters from the several States. In the city of Chicago alone the loss to depositors in such institutions since 1873, has exceeded

$6,000,000. In other words, the loss to the depositors in the Chicago banks doing business under special State charters in the past five years has nearly equalled the loss of all the depositors in all the national banks during the past fifteen years.

## THE NATIONAL BANKS AND THE UNITED STATES GOVERNMENT.

Chief-Justice Marshall, in Osborn *v.* Bank of United States, referring to the powers conferred by Congress upon the second Bank of the United States, says:

"It is an institution which is necessary and "proper for carrying on the fiscal operations of the "government. Can this instrument, on any rational "calculation, effect its object, unless it is endowed "with that faculty of lending and dealing in money "which is conferred by its charter? If it can, if it "is as competent to the purposes of government "without, as with this faculty, there will be much "difficulty in sustaining that essential part of its "charter. If it cannot, then this faculty is necessary "to the legitimate operations of government, and "was constitutionally and rightfully engrafted on "the institution."

Justice Swayne, in Farmers' & Mechanics' National Bank *v.* Dearing, heretofore quoted, says:

"The national banks are designed to aid the gov-"ernment in the administration of an important "branch of the public service, &c."

It is proper, therefore, to inquire what aid do the national banks render to the government, and is that aid worth what it costs?

The first and chief aid which the national banks render to the government is in maintaining its credit. In this respect they are like a well-arranged system of outlying forts to a citadel. While the forts remain secure, the citadel cannot be even attacked. Nothing but treachery from within can shake the credit of the United States government while the national banks continue in existence. The very life of the national banks depends upon the high credit of the United States government. In case of a war or of any call for extraordinary funds, the national banks will be obliged to furnish them.

It is a great advantage to any government to have a considerable number of its citizens of property directly interested in maintaining its credit.

The government has in the national banks customers for a large number of its bonds. Thus it has interested the main financial interests of the country in sustaining the price of its securities.

These considerations indicate one of the chief aids which the national banks have rendered to government. In the funding of the six-per-cent. war debt

into new bonds bearing four and four and one-half per cent. interest, a large annual saving has been effected. The annual interest charge is now $32,405,904.48 less than it was in 1869, and the saving from interest charge of previous years since the war is still greater. How much of this is attributable to the national banks cannot be accurately determined, but it cannot be denied that they have been largely instrumental in accomplishing this result.

This funding process is still going on, and must go on for many years to come, if the government is to be economically administered. The national banks are now the agents through which the four-per-cent. popular loan is being placed, the subscriptions to which are being quietly reported at the treasury.

The people are securing a safe and readily converted investment and the government are making a yearly saving of two per cent. on the amount of the sales. The treasury reports show that as agents the national banks had been instrumental in placing in the hands of the people in 1866, more than eleven hundred millions of United States securities.

In addition to these valuable services, the national banks have redeemed and returned to the treasury mutilated legal tenders and seven-thirty coupons, and have received and disbursed from the revenues hundred of millions of public money free of expense to the government.

In return for these services, what does the government pay to the national banks? A small commission on the bonds sold,—not more than one-quarter of one per cent. But beyond this nothing, unless the privileges conferred in their charters may be accounted a payment.

True, the United States government pays interest on its bonds which the banks have deposited in the treasury for the redemption of their circulating notes. This is not a payment for services, but for money lent, and if the banks should be abolished and their currency retired, the government would be obliged to pay this interest to the holders of the bonds.

In return for the privileges conferred in their charters, the government imposes a tax of one per cent. per annum on the amount of currency issued by national banks, and in common with the State banks and private bankers, it taxes them one-half of one per cent. per annum upon their average deposits and upon their capital in excess of the amount invested in United States bonds. On account of these taxes, the national banks pay yearly to the government more than seven millions of dollars. The revenue from this source in 1876, was $7,229,321.56; in 1877, $6,998,926.79; in 1878, $6,781,455.65.

It is proposed by certain unscrupulous politicians, careless of the welfare of the people, to cause the

retirement of the national bank notes, and to issue in their stead government notes, legal tender or otherwise. This subject will be considered further on, but it is worth while to say here, that the effort of the friends of a sound currency to answer this absurd proposition by showing that the national banks pay, in taxes to the government of the United States and to the local governments, nearly as much as they receive in interest upon their bonds, is but a limited and partial argument in defence of the national banking system. It is a comparison of two sets of figures which do not in any way depend upon each other. And whatever these figures say, the great advantages of the national banks to the people and government of the United States rest on other and far higher grounds.

For the sake of those who may be interested, however, those figures are here given.

| | | |
|---|---|---|
| Interest on bonds left with U. S. Treasurer to secure circulation, $368,534,279 (currency value), . | | $17,689,372 |
| U. S. taxes paid by national banks, . . | $6,902,573 | |
| State taxes paid by national banks, . . | 8,829,304 | |
| Add for annual cost of printing new greenbacks, . . . | 1,000,000 | 16,731,877 |
| Difference, . . . . | | $957,495 |

It is obvious that if the government should commit the folly of substituting United States notes for the national bank notes in circulation, it would not thereby annihilate the capital of the national banks or drive it out of the country. That capital would, in all probability, continue to pay its State and local taxes as at present. No State is allowed to tax national banks at a higher rate than other banks, and consequently the item of State taxes mentioned above is not properly brought into the argument. It is also to be considered that so much of the tax upon deposits as is included in the above tax paid by national banks would still continue to be paid to the government after the bank notes were returned.

## BANK NOTES LOST OR DESTROYED.

It is falsely asserted, by ignorant persons, that the national banks derive a profit from the loss or destruction of their notes in the course of business. This profit in reality accrues to the government. The government holds bonds to secure every dollar of circulation furnished to the banks, and before any bank can withdraw its bonds or realize upon them, it must return the notes so obtained, or in their places, if they have been lost or destroyed, a government legal tender note of like denomination. The govern-

ment, therefore, in receiving its legal tender for each bank note lost or destroyed, is the only gainer.

## THE PROFITS OF STOCKHOLDERS IN NATIONAL BANKS.

It is proper to inquire in a consideration of the utility of national banks to the people of the United States, whether the stockholders of these banks receive a profit upon their investment in excess of the profit which men derive from similar investments in this and other countries.

If it appears that these investments do pay an extravagant profit, it would go to show that some extraordinary advantage has been conferred upon the banks by the government charters, which has not hitherto been indicated.

If on the other hand it is shown that the national banks derive a less profit upon their capital than banking commonly pays, we are warranted in concluding that the national banking system is more profitable to the people at large than to the stockholders of the banks, and that more privileges might be fairly given to the banks, and that perhaps taxation upon their business has been unnecessarily severe.

The principal English joint-stock banks doing business in London, which issue a part of the bank note currency of Great Britain, are good examples of

the profit which such investments are expected to pay to their stockholders, in a country where the current rate of interest is low. The *Economist* gives the following list of the dividends of these banks for 1876 and 1877.

| | 1876 Per cent. | 1877. Per cent. |
|---|---|---|
| London and Westminister, . . | 14 | 14 |
| London Joint Stock, . . . | 15 | 15 |
| Union, . . . . . | 15 | 15 |
| City, . . . . . | 8 | 10 |
| Alliance . . . . . | 7 | 6 |
| Consolidated, . . . . | 10 | 10 |

These are fair illustrations of what the banking capital of England pays to its shareholders. The bank of England itself has paid in recent years regular semi-annual dividends of from four and one-half to five per cent. upon its shares.

There is no means of ascertaining the dividends which were paid by the old State banks. It is well remembered, however, that the profits then were large and very satisfactory. Bankers, when they recall those days, speak of them occasionally as "the golden age" of banking. It is not presuming too much to conclude that bank dividends then were at least equal to those of the London banks.

The first bank of the United States paid regular dividends of from eight to ten per cent. per annum, and nearly every large bank of the country has been

in the habit of dividing earnings equal to or exceeding this figure. Each of the present national banks is required, by a special provision in the law, to carry ten per cent. of its earnings each year into a surplus fund, until this surplus amounts to twenty per cent. of its capital. The capital of the national banks on June 29, 1878, was $470,393,366, and the surplus on the first of October, 1878, amounted to $117,000,000, showing that the banks as a general thing have carried more than twenty per cent. of their capital to their surplus since their organization. The dividends for the year ending September 1, 1877, amounted to $43,921,075, but the net earnings for the year were only $34,866,990. This shows that the banks for this year drew on their surplus in excess of the twenty per cent. for a part of their dividends.

The dividends amount to 8.93 per cent. upon the capital, to 7.09 per cent. upon the capital and surplus together; but the earnings for the year were only 5.62 per cent. of the sum of the capital and surplus. For 1878, the earnings have been only 5.1 per cent. of capital and surplus. As the law requires the banks to carry this surplus, the latter figure is the proper one upon which to base our opinion. And surely we are warranted in saying that five per cent. or even five and one-half per cent. is a very small profit compared with that which is commonly obtained in this line of business.

It may well be doubted whether any other description of business in which capital chooses to take risks, pays so small a percentage of profit. To be sure these are hard times, and banking suffers in common with general trade. The earnings of the national banks in 1870 were nearly eleven per cent. upon their capital and surplus, and in some previous years they were probably greater. But this only proves that the national banks have been well managed, and in prosperous times have husbanded their resources against a time of adversity. During the year ending September 1, 1877, the banks charged off out of their surplus for bad debts $19,933,587.99 ; in 1878, $24,466,799.89. It is re-assuring to know that their surplus is still intact above the twenty per cent.

In examining these figures we should not fail to remark the minuteness with which they enable us to comprehend the exact condition of the banks of the country. These figures are compiled from the statements of each bank made by the officers and directors under oath, and in most cases verified by official examination. No such knowledge of the financial institutions of the country was ever obtainable before the establishment of the national banking system, and in no small degree does this knowledge serve to secure credit, and produce confidence in reviving business and a return of prosperous trade.

No comment is necessary upon the foregoing figures in connection with those quoted regarding foreign banking. They speak for themselves. Plainly the national bank shareholders are not earning enormous profits, by the use of their franchises. Plainly the profits are not such as to invite new capital to engage largely in this business. Plainly there is more need of anxiety, lest capital be induced to withdraw from banking under the national banking system, to seek some more remunerative investment, than that it should be further vexed by taxation and restrictions.

## WHAT CLASS OF PERSONS ARE STOCKHOLDERS IN NATIONAL BANKS.

The stock is distributed quite generally among people of moderate means who need for their support regular dividends upon the small amounts of stock which represent their accumulated earnings. In the comptroller's report for 1877 are carefully prepared figures by which it appears that the number of shareholders of the national banks was then 208,486, and that the average amount of stock held by each shareholder was but about $3,100. More than one-half of these shareholders held but ten shares or less each—that is, not more than $1,000, while the entire number holding more than $10,000 each was but

10,851, or only about one-twentieth part of the whole, and of these but 767 held more than $50,000 each.

The number of national bank shares held in foreign countries is less than one per cent. of the whole, and more than one-half of these are of banks in New York. But 4,650 shares are owned in England, and the remainder belonging to foreigners is scattered among all the countries of the world. The national banks are not therefore open to the charge of being directed by foreign influence.

## WHAT PERSONS OTHER THAN STOCKHOLDERS DERIVE INCOME FROM NATIONAL BANKS.

In carrying on the national banks, there are of course a large number of officers and clerks employed. These are not paid extravagant salaries, indeed it has never been charged that the employees of banks are overpaid. Banking is a business in which steady employment and regular pay is expected, and consequently banks can always secure the best clerical and administrative talent at the lowest prices. Success in banking depends upon good judgment, system, accuracy and integrity. A good bank man must have all those qualities, and it is not too much to say that with these he is pretty sure to prove a good citizen.

Bank men have been detected in stealing the funds intrusted to them. It would be contrary to human experience that all of the multitude thus trusted should resist temptation. But with the large number of statements and examinations made compulsory by the national bank law, it is almost impossible that such peculation should escape detection. The national bank law also provides a special and heavy penalty for such criminals,—not less than five years' imprisonment.

The very fact that a defalcation on the part of a bank man produces such universal outcry and denunciation, proves that as a class they are men of high character, and possessing universal respect. The fall of a bank officer is like that of a clergyman, an occasion of surprise and mortification to the whole community.

The work necessary in the details of banking is confining, laborious, and frequently exhausting. There is no class of men in the country who earn their living by greater industry and application than those employed in banks, and the influence of the example of these men upon their fellow-citizens is almost without exception in favor of economy, sobriety, diligence, and the best interests of society.

## SHALL GOVERNMENT NOTES BE SUBSTITUTED FOR NATIONAL BANK NOTES?

It is proposed by certain politicians to retire the notes of the national banks from circulation, and in their place to issue an equal amount of government notes.

Mr. Thomas Ewing, of Ohio, introduced into the House of Representatives, last winter, a bill to accomplish this object. This bill was referred to the Committee on Banking and Currency. It was reported favorably to the House by this committee, the vote in the committee upon recommending its passage standing 7 to 2 in its favor.

The bill provides for the issue of Treasury notes of various denominations, equal in amount to the national bank notes outstanding. These notes shall be in the following form:

"*The United States of America are indebted to bearer in the sum of* ——— *dollars.*"

"They shall be receivable in payment of all taxes, customs, excises, debts and demands of every kind due to the United States, and of all claims and demands against the United States, except for obligations made payable in coin or lawful money by existing laws, and shall be received by the Secretary of the Treasury, at par, for four per centum bonds of the United States, &c."

The bill further provides for getting these notes into, and the national bank notes out of circulation.

It is not necessary that we discuss the machinery by which this purpose is to be accomplished. But it is proper that this proposition, so strongly favored by this important committee, should receive the careful attention of the American people and should be thoroughly discussed by them.

The same proposition, in substance, has since been adopted by the Democratic party in many State conventions, and stands embodied in many of the recent party platforms. If this has been done ill-advisedly, it is time that all patriotic Democrats and all patriotic American citizens should make themselves fully acquainted with the merits of this question, lest they be found aiding in effecting a great change in the financial administration of the nation, and thereby, perhaps, paving the way towards national disaster and bankruptcy.

In the first place it should be noted that the Treasury notes to be issued under this bill are not promises to pay. There is no provision for their redemption, and it is not expected that they will be redeemed at any time or in anything. They are to all intents and purposes "fiat" money, except that they are not made a legal tender in the payment of private debts.

This very important exception will make it utterly

impossible to put such notes into the place in commercial transactions now filled by the notes of the national banks. It is true that the national bank notes are not a legal tender, but they are convertible on demand into legal tenders and thus become an equivalent.

The proposed notes are to be receivable in payment of all dues to the United States and of subscriptions to four per cent. loans. The annual dues to the government amount to $270,000,000. They are to be payable for all claims against the United States, except those made payable in coin. The annual disbursements of the government, exclusive of coin payments, are $170,000,000.

Saying that in process of time the United States Treasury could force the $320,000,000 of national bank notes into retirement and give the people these new Treasury notes, it is obvious that the amount would be very greatly in excess of the use for them. For the payment of annual revenue $50,000,000 of notes in circulation would be ample. In consequence, these new notes would be redundant and would depreciate. They would be funded into four per cent. bonds, and thus would depreciate the price of these bonds and of other government securities.

This supposition is not mere imagination and abstract reasoning; it is founded on a previous experience of our government. An issue of $60,000,000

Treasury notes was authorized during the war of 1812, receivable in all payments to the United States. But $36,680,794 of these notes were ever issued. Those of these notes over $100 in amount bore interest at the rate of one and one half cent a day on every $100. Yet these notes were depreciated from eight to ten per cent. below the State bank notes then in circulation.

There is no reason for supposing that Mr. Ewing's proposed Treasury notes would have any better fate, but we may reasonably say that they would fare worse, for they would be more redundant, and the holders would have no hope of their redemption in any form of money.

Does any one suppose that the people of the United States would tolerate, in time of peace, the existence of depreciated Treasury notes? If the presence of a few trade dollars, worth only ninety cents in lawful money, raises a cry of disgust throughout the land, what might we expect to hear if $300,000,000 of irredeemable depreciated paper dollars were poured forth upon us?

But many of the advocates of this substitution for national bank notes propose to make the new Treasury notes legal tender in payment of private debts.

The possibility of doing this by an act of legislation is something of which Congressmen would do

well to satisfy themselves thoroughly before making the attempt. For, if Congress makes this attempt and fails, the trade of this country will be thrown into a state of serious and alarming complication.

The Supreme Court of the United States in its many decisions upon the constitutionality of the acts of Congress, has never uttered a syllable which would give any one reason to believe that Congress has power in time of peace to authorize the issue of legal tender paper money.

In the celebrated overruled case, Hepburn *v.* Griswold, five out of eight judges concurred in the opinion that Congress had no power, under any circumstances, to make its notes legal tenders for existing contracts: and in the overruling cases, Knox *v.* Lee, and Parker *v.* Davis, the majority of the court, five to four, only reversed the former decision upon the ground of overwhelming necessity.

Justice Strong, who delivered the opinion of the majority in those well known cases, said:

"It is not to be denied that acts may be adapted "to the exercise of lawful power and appropriate to "it in seasons of exigency which would be inappro- "priate at other times."

He then pictures in detail the exigencies to meet which the greenbacks were issued.

Judge Bradley, in his concurring opinion, after enlarging upon the necessity imposed upon the govern-

ment of raising money for the conduct of the war, says of the legal tenders:

"No one supposes that these government certifi-
"cates are never to be paid—that the day of specie
"payment is never to return." "Their ultimate des-
"tiny is to be paid."

In the face of these and many other confirmatory utterances of the Supreme Court, Congress would do a foolhardy thing, if it should order the issue of more legal tenders without first ascertaining, to the satisfaction of the whole people, that its action would be sustained by the Supreme Court.

An issue of new legal tenders to take the place of the national bank notes, without this satisfactory assurance of the opinion of the Supreme Court thereon, would introduce an element of great uncertainty into the transactions of daily life. There would be no patriotic public sentiment, as during the war, to demand that the new government notes should be generally received. Indeed, in many quarters they would be refused pending the decision of the Supreme Court, as the opinion prevails generally that their legal tender quality would be unconstitutional. They would consequently depreciate, and would remain a serious inconvenience in business affairs.

But let us assume, for the sake of argument, that a new issue of legal tenders can be constitutionally

made, and that they can be used in retiring the notes of the national banks: what effect would this change create upon the business interest of the country?

It would cause, first, a disastrous contraction of loans, and then an unnatural rise in prices.

The contraction of loans would be occasioned by the necessity laid upon the banks of providing funds to redeem and retire their notes. The banks would be obliged to largely reduce their discounts. The whole discounts of the national banks are $900,000,000. These are mainly in the form of short loans, running thirty, sixty, or ninety days. These are investments which banks make with their fluctuating funds. These are the loans made to merchants, farmers, and manufacturers, for the legitimate operations of trade. When banks expect calls for funds from depositors or note-holders, they contract their discounts. That is what they would do, if called upon by the government to redeem their notes. They would reduce their lines of discount $300,000,000 or thereabouts, and the merchants, farmers, and manufacturers would be obliged to seek elsewhere to this extent for the money needed to conduct their business.

It cannot be assumed that the new Treasury notes would be at hand to be loaned to the business men whose discounts at the bank had been curtailed. These Treasury notes would be in the hands of the

people, where the national bank notes now are employed in settling balances and effecting exchanges. They would not flow to the banks as deposits. The banks would not obtain them by selling bonds, and thus be prepared to keep up their discounts. Even if the banks desired to sell bonds, they would not be able to dispose of the large amount of $300,000,000 without greatly depressing the market, and this consideration would make them cautious and slow in offering to sell.

The first consequence of the substitution of new legal tenders would be a general contraction of short loans by the banks, and this would unquestionably produce commercial disaster and frequent bankruptcies.

The second consequence would be an unnatural rise in prices. To explain this, it will be necessary to discuss briefly

## THE FUNDAMENTAL DIFFERENCE BETWEEN BANK NOTES AND GOVERNMENT LEGAL TENDER PAPER MONEY.

This is a subject upon which there seems to be a strange lack of apprehension in the minds of many.

Is it so difficult to understand that a bank note issued on the application of a merchant, to be used in trade, and a government note forced upon a govern-

ment creditor and endowed with legal tender qualities, that his creditors may be in turn forced to accept it, are radically different instruments of effecting exchanges? The one is the expression of free will, the other of compulsion. The one goes only where it is invited and made welcome, the other is quartered upon the people. The one is a business agent dealing only with those who care to trade, the other is a government officer making requisitions from those who do not give up their property willingly.

This essential difference in these two instruments of traffic can never be obliterated. It may be temporarily forgotten in the course of long acquaintance, but it asserts itself every now and then and causes them to assume entirely different features in the transactions of commerce. The bank note goes out when it is wanted and effects exchanges, and when it is no longer needed it returns to its maker and is redeemed and retired. The government note goes out whether it is wanted or not, and stays out irrespective of the needs of the people.

Alexander Hamilton, in his report as Secretary of the Treasury, December 13, 1790, says:

"Among other material differences between a "paper currency issued by the mere authority of "government, and one issued by a bank, payable in "coin, is this: that in the first case there is no

"standard to which an appeal can be made as to "the quantity which will only satisfy or which will "surcharge the circulation; in the last, that standard "results from the demand. If more be issued than "is necessary it will return upon the bank. Its emis- "sions, as elsewhere intimated, must always be in "a compound ratio to the fund and the demand, "whence it is evident there is a limitation in the "nature of the thing, while the discretion of the "government is the only measure of the extent of "the emissions by its own authority."

This is unalterable truth. The best-disposed government has no means at its command for ascertaining the quantity of currency which the people require in their ever-varying transactions. If it should make the most sincere efforts to adapt the currency to the needs of the nation it could not do so. The amount of currency needed by any community or nation fluctuates constantly. In consequence of the inability of a government to adapt its currency to these fluctuations the most grave consequences result. It is a well-established fact that a redundant currency causes a rise of prices. In dull times a government currency becomes redundant and prices necessarily rise. This probably produces unnatural activity and the amount of currency appears to be too small. This causes a popular complaint and call for more currency. If government yields to

this demand and issues more currency, the same process is repeated. Prices again rise and more currency is again called for, and so on the ill-regulated machine goes, until financial ruin brings it to a full stop. A contraction of the government paper currency is also necessarily an unnatural process. It cannot be adjusted to the requirements of trade. It depresses prices artificially and creates distress and disaster.

Only two courses are open to a government with a paper currency outstanding: depreciation and repudiation, or redemption. All government paper currencies thus far, except our own, have suffered or are in a fair way to suffer the former fate. The United States now, through a favoring balance of trade and the persistence of Secretary Sherman, has given the world an example of redemption.

But if a new issue of Treasury notes should be ordered by Congress this redemption could never be maintained. We have made our present resumption of specie payments by virtue of heroic treatment on the part of our financial ministers. It was the only treatment which could have saved us. But we would never have the courage and endurance to submit to the same again.

If the new issue of the Treasury notes proposed by Mr. Ewing is effected, the rise of prices will be sure to take place, and the road to resumption will be ten

times more difficult than it has been during the past few years of our national history.

To understand more fully the difficulty under which government labors, in endeavoring to adapt its currency to the needs of the business transactions of the country, one has but to think of Congress, or of the Banking and Currency Committee of the House of Representatives, in comparison with the numerous boards of bank directors which meet in all the important communities to give special thought and attention to the financial needs of those communities. Who knows how much currency the customers of any particular bank require in business so well as the directors of that bank? What means have the Banking and Currency Committee for knowing anything at all of this subject? The aggregate needs of the customers of all the banks of the country are the aggregate needs of the people of the country. The directors of each bank know this accurately, as to their own bank, and take such means as are in their power to supply these needs. The aggregate efforts of all the banks, if they are allowed to act naturally, accomplish the aggregate result perfectly. It would be as reasonable for the committee of Congress having charge of the United States census to set down the aggregate population of the country from their unaided estimates, and publish it as a complete and satisfactory return, as

for the Banking and Currency Committee, or for Congress itself, or for any officer or bureau of government, to attempt the impossible task of providing the daily fluctuating amount of currency necessary for use in the business of this country. Congress may most appropriately and wisely enact laws that proper security shall be given for issues of currency, that banks shall make frequent report of their condition and submit to rigid examinations. In doing this they are guarding the interests of the people rightly, and doing all that it is possible for them to do in this direction, in justice to the people whose interests they are elected to protect.

If this nation should be compelled for any cause to retire the currency provided by national banking system, it should not hesitate to return to the old State bank currency, rather than adopt any form of government paper money. The State bank currency was a rude instrument, but it had its origin in the nature of things, and was adapted to the purposes of trade. But irredeemable government legal tenders will ruin any people who venture to use them as a permanent means of affecting exchanges.

In support of this position we might pile up authoritative statements of eminent men, and we might fill pages with illustrations from the historical experiences of our own and other nations. The issue of government legal tenders can only be justified when

a nation is involved in a desperate struggle for life, when it must make an immense exertion to save itself, and cannot stop to count the cost. Such a step on the part of a nation can only be atoned for by years of expensive and heroic suffering. The United States took that dangerous step, and thereby preserved its national existence. It has paid the price of its extreme effort, and brought itself back to the blessing of a natural and healthy currency. Surely the people will not throw away the results of their self-sacrifice, and allow themselves to commit, in cold blood, an act of wasteful destruction of prosperity, which was only justifiable in the dire and critical necessities of a life and death contest.

It cannot be denied that a certain amount of government paper money may be kept in circulation along side of, or as the basis of national bank notes. If government notes are redeemed and redeemable in specie, in all probability a certain amount of them will be willingly received by the people as a part of the currency of the country. Their redeemability into legal tender coin—the voluntary money of the world—would do away with the objectionable element of force in their legal tender quality. It is possible that a certain amount of such government notes might be used for the purposes of trade, and never be presented at the Treasury for redemption. What this certain amount is can only be determined

by experience, and if specie payments are maintained, and greenbacks are reissued from the Treasury, we shall be able in a few years to determine it by an approximate estimate.

This amount of government notes which might be counted on to continue in circulation at all times would be analogous in its nature to that portion of the Bank of England's notes which the Bank is authorized by its charter to issue without providing specie for its redemption. This amount is fixed by the Bank charter of 1844 at £14,000,000. It was assumed that under no circumstances would the Bank be called upon to redeem any portion of this issue, that no contingency could arise in which the outstanding circulation would fall below this amount.

Experience thus far has proved that that estimate was not too high. The Bank of England has never been called upon to redeem any part of this £14,000,000 of its circulation.

It is possible that a similar amount of our government notes might be kept in circulation without prejudice to the commercial interests of this country and so guarded by law that they would never be presented for redemption.

## CAN GOVERNMENT NOTES REDEEMABLE ON DEMAND BE USED AS CURRENCY.

One of the forms in which the question is presented of substituting government notes for national bank notes in circulation is the following:

"If the government redeems its notes in coin on demand is there any valid objection to its thus supplying all the currency of the country?"

To this there is not the same objection as in cases previously considered. So long as the government maintained a large reserve of specie to command credit for its notes, and promptly redeemed such notes as were presented at the various sub-treasuries, its notes would serve the requirements of commerce. For this it would be necessary for the government to establish a banking bureau, to provide a special reserve, and in fact to inaugurate a department similar to the issue department of the Bank of England. Having determined the amount of currency which under all circumstances would continue in circulation, it would be necessary to provide, in the fund for redemption, a coin dollar for every dollar of excess of circulation outstanding. Nothing less than this would give the government notes undoubted credit and prevent runs, exhaustion, and suspension.

Would it pay the government to embark in this

business? Would not the expense more than absorb the profit? Is it safe to trust the maintenance of such a reserve to politicians, appointed to office from other considerations than their business experience and conservative characters? Would Congress maintain such a reserve fund without wavering? An exciting debate upon this subject in Congress might, at any time, excite a run upon the treasury and inaugurate a commercial crisis. Would any reasoning man be willing to submit the business of the country to this strain?

There is still another consideration in regard to this proposition. Governments have never deemed it wise to base a paper currency upon their sole credit. It has been found much the better policy to throw the first responsibility for the redemption of paper currency upon the capital of citizens associated in a corporate capacity. A government thus brings in individual capitalists to its support. The government provides the rules and regulations under which this capital shall be administered, and, so to speak, intrenches itself behind it. If the Bank of England should fail to redeem its notes through defalcation, panic or disaster, the government of England would still retain its credit. It would call to its aid new capital and remain unshaken. But what would be the consequences of the government of the United States undertaking to maintain a redeemable

paper circulation on its unaided credit, should it by any mischance fail to pay its notes upon presentation? It would unquestionably suffer immense injury in all its departments. The bankruptcy of banking institutions is a national calamity, but the bankruptcy of the United States Treasury would be a tenfold greater disaster and disgrace.

This, as we have said previously, is the great service which the national banks render to the United States government. They protect its credit, and by reason of this service, they pre-eminently are necessary and proper means of administering the powers delegated in the constitution. We might even go back of these words of the Supreme Court, and assume the strictest construction of the followers of Jefferson, and say that they are "indispensable" means to these ends.

### THE NATIONAL BANKS WILL NOT COMBINE TO PROTECT THE NATIONAL BANKING SYSTEM.

Aside from their interest as patriotic citizens in the prosperity and unity of the nation, or as business men in the encouragement and prosperity of general trade, the stockholders, directors, and officers have no reasons to wish for the continuance of the national banking system.

The old banks were opposed to the national bank

act at the time of its passage. Its exactions are more rigid than have ever been imposed by government. The frequent examinations and the publicity which is given the affairs of the banks by the publication of statements made under oath, are annoying even to the most careful and conservative managers.

The privilege of issuing currency is not renumerative. The comptroller of the currency, in his report for the present year, has made a careful estimate, and has demonstrated that this profit is not more than two and a half per cent. upon the capital invested in the bonds deposited to secure the circulation. This does not pay for the trouble and vexation which it involves. The banks could undoubtedly invest this capital in a more remunerative manner.

That the bankers do not highly value the profit derived from the circulating notes is proved by the fact that the aggregate of circulation is decreasing. Since 1874 the aggregate circulation has decreased $28,902,387. This is an undeniable test. If it were a profitable business operation to buy bonds and obtain circulating notes therefor the $100,000,000 of capital of the national banks in excess of the bonds now deposited to secure circulation would be invested in that manner. The conclusion is unavoidable that in the present state of trade and taxation, the national banks have no reason to take trouble or incur expense to retain this privilege.

If the national bank act should be repealed or greatly changed to the disadvantage of the banks, the banks would willingly change to the old systems. They would thereby avoid for the most part, examination and public statements, would return to the old profitable rates of exchange, and would be comparatively free to make great and indefinite gains, taking greater risks in many cases and exposing the business communities to greater losses.

## CONCLUSION.

If the national banking system is preserved, it must be defended by the people.

It has been shown how it was established for the people, through the patriotic efforts of Lincoln and Chase, and their cotemporaries. It has answered the ends proposed for it by these men of wise designs and pure motives. It has furnished the people with a safe and uniform currency. It has facilitated all the operations of trade. It has greatly reduced the losses of depositors, and rendered the transfer of capital to new and comparatively unimproved parts of the country secure and inexpensive. It has brought a considerable portion of the banking capital of the nation to the aid of the government, and has materially strengthened its credit. It has greatly assisted the government in funding its loans

and reducing the rate of interest thereon. For all these reasons the people should maintain it, as the best measure which has yet been devised for securing confidence in trade, and for promoting material prosperity.

It is not claimed that the national bank system is perfect. Theorists criticise it and point out defects in its operations. Writers on finance compare it with ideal systems and pronounce it imperfect. But judging it in a practical way from its results during the past fifteen years, and comparing it with previous experience, we have every reason to be well pleased with it. Banking in this country has been developed in a series of expensive lessons, and the excellencies of the national banking system are the products of these experiences.

Let us now take no step backwards. Let us not forfeit a single one of the advantages which we have gained. Let us listen to no demagogues who for purposes of agitation would lead us to take a leap in the dark. But let us maintain the good things which we have, until we can see clearly and conclusively how we can do better.

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